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ORIGIN EA-14

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----- 087909
R 162235 Z MAY 73
FM SECSTATE WASHDC
TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 093893

JOINT STATE/ AID MESSAGE

E. O. 11652: GDS
TAGS: EAID, ID

SUBJ: INOUE COMMITTEE TRIP REPORT

1. FOR YOUR INFORMATION, HERE ARE THE CONCLUSIONS AND
RECOMMENDATIONS CONCERNING INDONESIA CONTAINED IN THE
INOUE COMMITTEE REPORT:

QUOTE: 1. INDONESIA HAS MADE GREAT ECONOMIC STRIDES SINCE
THE ADVENT OF THE SUHARTO REGIME IN 1967. THE DELEGATION
WAS IMPRESSED BY INDONESIAN EFFORTS IN CHARTING THE
OVERALL ECONOMIC GROWTH OF THE COUNTRY, WHICH IS ONE OF
THE LARGEST IN THE WORLD.

2. INDONESIA, DESPITE RECOVERY FROM THE ECONOMIC COLLAPSE
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AT THE END OF THE SUKARNO ERA, FACES GREAT OBSTACLES IN SUSTAINING A SUCCESSFUL DEVELOPMENT PROGRAM. IT MUST OVERCOME A WIDE RANGE OF PROBLEMS SUCH AS LOW LITERACY, LACK OF SKILLED TECHNICAL AND ADMINISTRATIVE TALENT, POPULATION GROWTH, A VERY POOR EDUCATION SYSTEM, AND CORRUPTION.

3. INDONESIA IS AN EXAMPLE OF A CONSORTIUM EFFORT UNDER WHICH THE INDIVIDUAL BILATERAL ASSISTANCE PROGRAMS ARE COORDINATED IN A MULTILATERAL SETTING. UNITED STATES ASSISTANCE SERVES AS A CATALYST FOR GENERATING ASSISTANCE FROM OTHER DONORS.

4. WHILE THE CONSORTIUM MECHANISM HAS HELPED STABILIZE THE ECONOMY AND INCREASE INDONESIA'S NATIONAL INCOME, THE DELEGATION COULD FIND NO DIRECT LINKS BETWEEN THE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM AND THE LIVING CONDITIONS OF ORDINARY INDONESIANS. UNFORTUNATELY, THE UNITED STATES DOES NOT IDENTIFY THEIR PRIORITY NEEDS OR TARGET SPECIFIC PROJECTS TO DEAL WITH SUCH NEEDS.

5. WITHIN THE FRAMEWORK OF THE CURRENT UNITED STATES PROGRAM, THE DELEGATION BELIEVES A MODIFICATION OF THE FIXED COST REIMBURSEMENT METHOD OF DISPENSING UNITED STATES AID MIGHT BE WORKED OUT, UTILIZING THE LOCAL CURRENCY EQUIVALENT OF UNITED STATES DOLLAR ASSISTANCE. THIS WOULD GIVE OUR AID PROGRAM A DIRECT IDENTIFICATION WITH SOCIAL, DEVELOPMENTAL AND HUMANITARIAN CONCERNS OF ORDINARY INDONESIANS. THE DELEGATION REALIZES THAT IT IS CHARTING NEW AND UNEXPLORED TERRITORY BUT BELIEVES THAT THE MISSION SHOULD RETHINK ITS POSITION ON THE FEASIBILITY OF APPLYING THE REIMBURSABLE AID METHOD.

6. COMMUNIST NATIONS ARE OWED SUBSTANTIAL SUMS BY INDONESIA FOR PAST ASSISTANCE WHICH, IN MANY CASES, WAS FOR ILL- ADVISED PROJECTS AND MILITARY EQUIPMENT. THESE ALONG WITH FREE WORLD AND MULTINATIONAL DEBTS WILL BE REPAID AS THE INDONESIAN ECONOMY EXPANDS.

7. UNITED STATES ASSISTANCE PROVIDES THE UNDERPINNING FOR THE INTERESTS OF THE UNITED STATES PRIVATE SECTOR IN INDONESIA. THIS INCLUDES ACCESS TO INDONESIA'S SUBSTANTIAL CONFIDENTIAL

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NATURAL RESOURCES AND TO ITS MARKET OF OVER 120 MILLION POTENTIAL CUSTOMERS.

8. INDONESIA OFFERS A FERTILE AREA FOR EXPANSION OF UNITED STATES EXPORTS. MUCH MORE NEEDS TO BE DONE TO PROVIDE SUITABLE CREDIT FOR UNITED STATES EXPORTS AND TO INCREASE SALE AND PROMOTIONAL EFFORTS. IN PARTICULAR,

THE EXPORT- IMPORT BANK MIGHT BE ABLE TO PLAY A MORE ACTIVE ROLE.

9. THE DELGATION IS CONCERNED AT THE LOW UNITED STATES SHARE OF CONTRACT AWARDS FINANCED BY INTERNATIONAL ORGANIZATIONS. PROCEDURAL IMPROVEMENTS ARE NEEDED -- PARTICULARLY IN PROVIDING BID TENDERS IN ENOUGH TIME FOR UNITED STATES BUSINESS TO RESPOND. MORE IMPORTANTLY, UNITED STATES OFFICIALS NEED DETAILED INFORMATION ON AWARDS SO THAT THEY CAN PINPOINT UNDERLYING REASONS WHY UNITED STATES FIRMS ARE SO UNSUCCESSFUL AND TAKE WHATEVER REASONABLE MEASURES ARE CALLED FOR TO INCREASE THE UNITED STATES SHARE.

10. THE STATE DEPARTMENT, THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND THE COMMERCE DEPARTMENT SHOULD PLACE MAXIMUM EMPHASIS ON DEVELOPING SPEEDY MEANS TO BRING TO THE ATTENTION OF THE UNITED STATES PRIVATE SECTOR THE OPPORTUNITIES FOR SALE OF AMERICAN PRODUCTS UNDER THE INTER- GOVERNMENTAL GROUP ON INDONESIA PROJECTS. TO THE EXTENT THAT OTHER COUNTRIES UNTIE THEIR ASSISTANCE, THE UNITED STATES TRADE SHOULD BE GIVEN EARLY WARNING FOR PROCUREMENT AND ENGINEERING PROSPECTS.

11. THE UNITED STATES SHOULD PUSH FOR INCREASED CONTRIBUTIONS FROM THOSE DEVELOPED COUNTRIES WHOSE TRADE BENEFITS ARE DISPROPORTIONATE TO THEIR CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS.

12. CONTINUED EFFORTS SHOULD BE MADE IN THE INTER- GOVERNMENTAL GROUP ON INDONESIA TO PERSUADE THE JAPANESE TO MAKE THEIR AID TERMS AT LEAST AS FAVORABLE AS THOSE OF THE UNITED STATES.

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13. INDIA WILL NOT ALLOW THE UNITED STATES TO USE ITS RUPEE BALANCES TO TRAIN INDONESIANS AND OTHER FOREIGN NATIONALS IN INDIA. THE DELEGATION CAN SEE NO REASON WHY THE AGENCY FOR INTERNATIONAL DEVELOPMENT SHOULD HAVE TO ABIDE BY UNILATERAL INDIAN DECISIONS REGARDING THE USE OF UNITED STATES- OWNED RUPEES.

14. MILITARY INVOLVEMENT IN PRIVATE ENTERPRISE IS PERVASIVE IN INDONESIA. UNITED STATES OFFICIALS MUST BE ALERT TO DETECT ANY IMPROPER USE OF UNITED STATES SUPPLIED EQUIPMENT -- PARTICULARLY MILITARY CONSTRUCTION EQUIPMENT. RUSH

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